159089

GAO

United States
General Accounting Office
Washington, D.C. 20548

Accounting and Information
Management Division

B-277409

July 30, 1997

Ms. Kendall S. Hartman
National Director
Congressional Award Foundation

Subject: Opportunities to Improve the Congressional Award Foundation's Internal Controls

Dear Ms. Hartman:

In May 1997, we issued our opinion on the Congressional Award Foundation's (1) fiscal year 1996 financial statements and (2) management assertions regarding its system of internal controls as of September 30, 1996. We also reported on the Foundation's compliance with selected provisions of relevant laws and regulations during fiscal year 1996 (GAO/AIMD-97-87, May 15, 1997).

In conducting our fiscal year 1996 audit, we found that the Foundation had made progress in addressing some of the accounting procedure and internal control matters identified in the management letter from our audit of the Foundation's fiscal year 1995 financial statements (GAO/AIMD-96-161R, September 25, 1996). Specifically, the Foundation had improved its controls over processing cash receipts and maintenance of property records.

The purpose of this letter is to advise you of matters identified during our fiscal year 1996 audit concerning the Foundation's policies and procedures relating to (1) cost assignments and allocations, (2) monitoring the restrictive status of contributions, (3) receivables management, (4) documentation for financial reporting adjustments, (5) bank reconciliation procedures, and (6) transaction documentation and approval, and to provide our suggestions for improvement. Although these matters are not considered material in relation to the Foundation's fiscal year 1996 financial statements, we believe that by acting to address them, the Foundation will improve internal controls over these areas. The Foundation may wish to consider obtaining the services of professionals with financial management and reporting expertise for assistance in addressing these matters.

We conducted our audit pursuant to the Congressional Award Act, as amended (2 U.S.C. 807), and in accordance with generally accepted government auditing standards.

In commenting on a draft of this letter, you agreed with our findings and stated your intention to implement our suggestions. Specifically, you told us that you are currently expanding and clarifying the Foundation's policies and procedures to address several matters discussed in this letter. Also, you intend to augment the Foundation's staff with an office manager to assist in implementing the revised policies and procedures. Finally, you indicated that you intend to obtain guidance from professionals with financial management and reporting expertise to assist in implementing our suggestions regarding cost allocations and contribution restrictions. We will review the Foundation's status in addressing these matters during our fiscal year 1997 financial audit.

POLICIES AND PROCEDURES FOR COST ASSIGNMENTS ARE NOT DOCUMENTED

Statement of Financial Accounting Standards (SFAS) No. 117 requires not-for-profit organizations like the Foundation to report expenses by functional classification, such as program, administrative, and fundraising. Since some expenses--such as salaries and office supply expenses--may support more than one function, a documented process should exist for allocating these expenses among the functional categories. In addition, SFAS No. 117 requires reporting of restrictions on the use of particular assets that affect the assets' liquidity. In 1996, this required the Foundation to use cost assignments[1] to determine the amounts charged to temporarily restricted cash. These charges also impacted the reporting and disclosure for net assets released from restrictions and funds escrowed for council development.

During our fiscal year 1996 audit, we found that the Foundation had no documented policies and procedures for

[1]Cost assignments include cost tracing and allocation. Cost tracing assigns a cost to a cost object or an activity using an observable measure of the consumption of resources by the activity or cost object. Cost allocation apportions or distributes costs when a direct measure does not exist.

assigning certain costs to the program, fundraising, and administrative functions. Similarly, the Foundation had no documented policy for determining the costs to be charged to temporarily restricted funds. In addition, we found that some reimbursable costs of the Foundation, though charged appropriately to temporarily restricted funds, had not been separately recognized as expenses of the Foundation. The lack of a documented cost policy, and of associated procedures to implement such a policy, increases the risk that costs may be misclassified on the Foundation's financial statements. It also increases the risk that management may not have the cost information it needs for effective management and proper accounting.

We suggest that the Foundation document its policies and procedures regarding cost tracing and allocations. The policies and procedures should identify the types of costs that can be directly traced to each function and those that support multiple functions and thus need to be allocated. For allocable costs, the policies and procedures should specify the manner in which costs will be pooled as well as the appropriate bases for the allocation.

POLICIES AND PROCEDURES FOR MONITORING CONTRIBUTION RESTRICTIONS HAVE NOT BEEN DEVELOPED

SFAS No. 116 requires entities to report contributions according to their restrictive status, as determined by any donor specifications. It also requires that contributions be classified as either unrestricted, temporarily restricted, or permanently restricted.

During our fiscal year 1996 audit, we found that the supporting documentation for several large contributions we tested did not clearly indicate the restrictive status of these contributions. Also, we found that the restrictive status of a large contribution that had been pledged and recorded in fiscal year 1995 as unrestricted had to be reclassified as temporarily restricted due to a donor-imposed restriction on its use that was discovered when the contribution was actually received during fiscal year 1996.

These problems were not identified earlier because the Foundation does not have formal policies and procedures for identifying, tracking, and confirming the restrictive status of contributions. This increases the risk that the Foundation may fail to meet donor intentions. It also increases the risk that the Foundation may misclassify contributions and not detect the error in time to prevent its inclusion in the financial statements.

We suggest that the Foundation develop and formalize policies and procedures for monitoring the restrictive status of contributions. The policies and procedures should, where appropriate, use terminology consistent with SFAS No. 116 (such as intention to give, promise to give, conditional promise to give, and permanently restricted), use unambiguous wording in the Foundation's pledge cards and other fundraising materials, and identify circumstances where confirmation of donors' intent regarding restrictions on their contributions is necessary.

PROCEDURES FOR MANAGING RECEIVABLES ARE NOT SUFFICIENT

Management should monitor receivables on an ongoing basis in order to identify and follow up on those that are overdue. To facilitate this, subsidiary records of receivables should be reliable and should provide management the information needed to readily identify and appropriately respond to overdue receivables.

During our fiscal year 1996 audit, we found that the Foundation did not sufficiently monitor contributions and accounts receivable to ensure that they were collectible. As a result of our audit, the Foundation adjusted the valuation of accounts and contributions receivable. Although the Foundation has improved the information by which it manages receivables based on suggestions from our fiscal year 1995 audit, additional steps could be taken. For example, during our fiscal year 1996 audit, we found that the Foundation's accounting policies and procedures do not specify the form and content of receivable subsidiary records, nor do they provide guidance on monitoring these records and investigating and resolving overdue receivables. This makes it difficult for management to readily (1) assure the reliability of its reporting over receivables, (2) identify its overdue receivables and pursue collection efforts, (3) determine the need to record a valuation allowance, and (4) write off uncollectible receivables, as appropriate.

We suggest that Foundation management expand its accounting policies and procedures to require that receivable subsidiary records (1) be periodically reconciled with detailed information maintained in other Foundation databases to improve the reliability of receivables reporting, (2) reflect all pertinent information necessary to assess the collectibility of each receivable, and (3) include an aging of receivables to highlight those that are overdue so that appropriate allowances may be established and uncollectible amounts written off.

DOCUMENTATION FOR FINANCIAL REPORTING ADJUSTMENTS IS NOT SUFFICIENT

To ensure that financial reporting adjustments are reported in conformance with applicable professional standards and management's intent, they should be clearly documented and subject to supervisory review prior to being recorded in an entity's financial reports. The documentation supporting these adjustments should be readily available for review by management and independent verification by auditors.

During our fiscal year 1996 audit, we found that financial reporting adjustments prepared subsequent to the closing of the general ledger for financial statement presentation (i.e., worksheet adjustments) were not clearly documented. This obscured the audit trail between the financial statements and supporting records and made it more difficult to verify that the adjustments were authorized and appropriate.

These problems, which we also identified in the management letter from our fiscal year 1995 audit, occurred because the Foundation's policies and procedures do not contain requirements for preparing, documenting, and approving financial reporting adjustments. The absence of this guidance increases the likelihood that financial reporting adjustments will not be appropriately documented and approved.

We suggest that the Foundation amend its accounting policies and procedures to require that all adjustments recorded in the financial statements be documented in writing and approved by management prior to reporting them in the financial statements.

BANK RECONCILIATION PROCEDURES ARE NOT SUFFICIENTLY DETAILED

Conducting bank reconciliations is a key internal control to identify and resolve differences between an entity's cash balance and the corresponding cash balance reported by the entity's bank. Preparing bank reconciliations provides assurance that any errors or irregularities that occur are promptly detected, investigated, and resolved.

During our fiscal year 1996 audit, we found that the Foundation did not always investigate and resolve differences promptly. While the Foundation's accounting policies and procedures direct that bank reconciliations be performed, they do not prescribe how to do them. For example, the policies and procedures do not specifically require that differences be investigated and resolved or that completed reconciliations be subject to supervisory review. This reduces the effectiveness of the reconciliations as an internal control and increases the risk that inappropriate transactions would not be promptly detected by management. We also identified this issue in the management letter from our fiscal year 1995 audit.

We suggest that the Foundation expand its accounting policies and procedures to specify that all outstanding items identified during the course of conducting bank reconciliations be promptly investigated and resolved and that completed bank reconciliations be subject to appropriate supervisory review.

POLICIES AND PROCEDURES OVER DOCUMENTATION AND APPROVAL ARE NOT ADEQUATE

An important internal control objective is that transactions be supported by appropriate documentation subject to meaningful supervisory review to ensure that transactions are processed in accordance with management's intent. Based on this review, management should approve the transactions in writing prior to recording them in the financial records to document that the review has taken place and that the transactions have been authorized.

During our fiscal year 1996 audit, we found several expense transactions that did not show evidence of supervisory review or were not supported by appropriate documentation. The Foundation's accounting policies and procedures do not require written approval of transactions, nor do they address the nature of supporting documentation to be retained. As a result, staff may misinterpret or misunderstand related management policies and not retain sufficient documentation for meaningful supervisory review. This also increases the risk of inappropriate transactions being processed and reported. We identified a similar issue in the management letter from our fiscal year 1995 audit.

We suggest that the Foundation expand its written accounting policies and procedures to clearly communicate management's policy regarding the nature and extent of the documentation to be retained in support of transactions and to require clear documentation of supervisory approval of all transactions prior to recording them in the accounting records. This would not only communicate management policy more clearly but also provide guidance to assist less experienced staff in performing internal control functions.

- - - - -

We appreciate the cooperation and assistance Foundation management and staff provided during our audit of the Foundation's fiscal year 1996 financial statements. If you have any questions or need assistance in addressing these matters, please contact me at (202) 512-9406 or Steven J. Sebastian, Assistant Director, at (202) 512-9521.

Sincerely yours,

Robert W. Gramling

Robert W. Gramling
Director, Corporate Audits
and Standards

(917792)

Ordering Information

The first copy of each GAO report and testimony is free. Additional copies are $2 each. Orders should be sent to the following address, accompanied by a check or money order made out to the Superintendent of Documents, when necessary. VISA and MasterCard credit cards are accepted, also. Orders for 100 or more copies to be mailed to a single address are discounted 25 percent.

Orders by mail:

U.S. General Accounting Office
P.O. Box 6015
Gaithersburg, MD 20884-6015

or visit:

Room 1100
700 4th St. NW (corner of 4th and G Sts. NW)
U.S. General Accounting Office
Washington, DC

Orders may also be placed by calling (202) 512-6000
or by using fax number (301) 258-4066, or TDD (301) 413-0006.

Each day, GAO issues a list of newly available reports and testimony. To receive facsimile copies of the daily list or any list from the past 30 days, please call (202) 512-6000 using a touchtone phone. A recorded menu will provide information on how to obtain these lists.

For information on how to access GAO reports on the INTERNET, send an e-mail message with "info" in the body to:

info@www.gao.gov

or visit GAO's World Wide Web Home Page at:

http://www.gao.gov